

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.
STATE OF KANSAS
OFFICE OF THE STATE BANK COMMISSIONER
TOPEKA, KANSAS

-----)	Docket Nos.	98-036-B-BHC
In the Matter of)		98-036-B-SM
)		
AMERICAN NATIONAL BANCSHARES)	Cease and Desist Order Issued on	
OF WICHITA, INC.)	Consent Pursuant to the Federal	
Wichita, Kansas)	Deposit Insurance Act, as Amended,	
)	and Section 9-1807 of the	
and)	Kansas Statutes Annotated	
)		
AMERICAN BANK)		
Wichita, Kansas)		
)		

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of American National Bancshares of Wichita, Inc., Wichita, Kansas ("Bancshares"), a registered bank holding company, and its subsidiary bank, the American Bank, Wichita, Kansas (the "Bank"), a State chartered bank that is a member of the Federal Reserve System, the Board of Governors of the Federal Reserve System (the "Board of Governors"), the State of Kansas Office of the State Bank Commissioner (the "OSBC"), Bancshares, and the Bank have mutually agreed to enter into this consent Cease and Desist Order (the "Order");

WHEREAS, on July 22, 1999, the boards of directors of Bancshares and the Bank at duly constituted meetings adopted resolutions: (1) authorizing and directing Patrick J. Regan, Jr., chairman of the board of Bancshares and of the Bank to enter into this Order on behalf of Bancshares and the Bank, respectively, and consenting to compliance with each and every provision of this Order by Bancshares and the Bank and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813 (u) and 1818 (b)(3)) (the "FDI Act"); (2) waiving a hearing for the purpose of taking evidence on any matter set forth in this Order; (3) waiving any and all rights to contest the issuance of this Order by the Board of Governors, pursuant to 12 U.S.C. 1818, 12 C.F.R. Part 263, and the OSBC, pursuant to section 9-1807 of the Kansas Statutes Annotated (Kan. Stat. Ann. 9-1807); and (4) waiving any and all rights to challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof.

NOW, THEREFORE, before the taking of any testimony or adjudication of, or finding on any issue of fact or law herein, and without this Order constituting an admission of any allegation made or implied by the Board of Governors or the OSBC in connection with this proceeding;

IT IS HEREBY ORDERED that Bancshares, the Bank, and their institution-affiliated parties cease and desist and take the following affirmative actions:

1. Bancshares and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and the OSBC. Requests for approval shall be received at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, information on the amount proposed to be paid, Bank earnings and capital levels for the most recent annual period and the fiscal year to date, and an analysis of the proposed dividend in light of the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985.

2. (a) Bancshares shall not, directly or indirectly, without the prior written approval of the Reserve Bank:

(i) Increase its borrowings or incur any additional debt, including debt to stockholders;

(ii) make any debt service payments to any current or former institution-affiliated party, or related interest thereof; or

(iii) purchase or redeem any of its stock or make, affirm, or ratify any commitment to purchase, redeem, or pledge any of its stock.

(b) For the purpose of this Order, the term "related interest(s)" shall be defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. 215.2(n)).

3. (a) Bancshares shall not repurchase any loan participations from any of its shareholders or their related interests and shall not enter into, participate, or in any other manner engage in any other financial transaction with any of its shareholders or with the Bank without the prior written approval of the Reserve Bank.

(b) The Bank shall not repurchase any loan participations from any of Bancshares's shareholders or their related interests and shall not enter into, participate, or in any other manner engage in any other financial transaction with Bancshares or any of its shareholders or their related interests without the prior written approval of the Reserve Bank and the OSBC.

(c) For the purpose of this Order the term "financial transaction" shall include, but is not limited to: any extension of credit (as defined in section 215.3 of Regulation O of the Board of Governors (12 C.F.R. 215.3)), the payment of money, the transfer, sale, or purchase of any asset, a contract or payment for services, or the direct or indirect payment of any obligation of Bancshares or any of its shareholders by Bancshares or the Bank.

(d) Notwithstanding the provisions of paragraph 3(c) hereof, the term "financial transaction" shall not include the purchase of shares of Bancshares or the Bank or any other financial transaction that results in a capital contribution to Bancshares or the Bank.

4. Within 15 days of this Order, Bancshares and the Bank shall submit to the Reserve Bank and the OSBC an acceptable written plan to restore and maintain sufficient capital at the Bank. The plan shall, at a minimum, address and consider:

(a) Bancshares's and the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measures and Tier 1 Leverage Measures, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D) and the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measures and Tier 1 Leverage Measures, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of the Bank's adversely classified assets;

(c) the Bank's level of concentrations of credit;

(d) the growth in the Bank's assets and its relationship to the Bank's capital ratios;

(e) the Bank's anticipated levels of retained earnings;

(f) the adequacy of the Bank's loan loss reserves and its effect on the Bank's financial condition;

(g) the source and timing of additional funds to fulfill the future capital and the loan loss reserve requirements set forth in this Order; and

(h) procedures for the Bank to notify the Reserve Bank and the OSBC, in writing, within 10 days of the end of any calendar quarter that the Bank's tier 1 leverage ratio falls below

4 percent and to submit to the Reserve Bank and the OSBC an acceptable written plan that details the steps the Bank will take to increase its tier 1 leverage ratio to no less than 4 percent within 30 days of such calendar quarter-end date.

5. Within 30 days of this Order, the board of directors of the Bank shall submit to the Reserve Bank and the OSBC an acceptable written plan to establish and maintain effective risk management programs to address board oversight, control, and supervision of the Bank's senior management and the major operations and activities of the Bank. The plan shall address and consider, at a minimum:

(a) Credit administration practices, policies and staffing including, but not limited to, loan underwriting, documentation, and approval, monitoring of concentrations of credit, problem loan identification, compliance with laws and regulations and independent loan review;

(b) corrective steps that are responsive to the criticisms of the Bank's current internal controls procedures as set forth in the November 9, 1998 Report of Examination and as discussed during the examination conducted by the OSBC and the Reserve Bank that commenced on May 17, 1999 (collectively, the "Reports of Examination"), including, but not limited to, procedures for reporting suspected criminal activity in accordance with the requirements of section 208.62 of Regulation H of the Board of Governors (12 C.F.R. 208.62);

(c) adequate policies and procedures for operations, liquidity and funds management, including loan participation activity; and

(d) periodic review of management's compliance with policies, procedures, and programs.

6. The Bank's board of directors, each committee thereof, and the executive loan committee shall maintain full and complete minutes of their meetings and actions taken therein, which shall be submitted to the Reserve Bank and the OSBC within five days of each meeting. Such submissions shall include copies of all written materials presented to the board and committee members prior to and during their meetings.

7. (a) Within 30 days of this Order, the boards of directors of Bancshares and the Bank shall submit to the Reserve Bank and the OSBC a plan to increase the number of their respective outside directors to ensure that a majority of each entity's directorate consists of outside directors.

(b) For the purposes of this Order, the term (i) "outside director" shall be defined as an individual who is not otherwise an employee, officer or agent of Bancshares, the Bank or any affiliate of the Bank; and (ii) "affiliate" shall be defined as set forth in section 23A(b)(1) of the Federal Reserve Act (12 U.S.C. 371c (b)(1)).

8. (a) Within 45 days of this Order, the Bank shall take such actions as are necessary to employ:

(i) A permanent full-time president and chief executive officer with demonstrated experience in the management and operations of a bank; and

(ii) a permanent full-time chief lending officer with demonstrated experience in lending areas associated with the Bank's business plan, monitoring asset quality, and working-out and collecting commercial real estate and construction loans.

(b) During the term of this Order or as otherwise required by law, Bancshares and the Bank shall comply with the provisions of section 32 of the FDI Act (12 U.S.C. 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart H) with respect to the appointment of any new directors or the hiring or promotion of any senior executive officers as defined in section 215.2(e) of Regulation O of the Board of Governors (12 C.F.R. 215.2(e)).

9. Within 60 days of this Order, a committee of outside directors of the Bank shall conduct a review of the functions, qualifications, and performance of the officers of the Bank, and shall forward to the Reserve Bank and the OSBC its written findings and conclusions along with a written description of any management changes that may be proposed as a result of the review. The review shall focus on an assessment of the duties performed by each officer and the ability of each officer to perform competently his or her assigned duties. The primary purpose of

this review shall be to aid in the development of a management structure that is suitable to the Bank's needs and is adequately staffed by qualified and trained personnel. At a minimum, the qualifications of management shall be assessed for its ability to (a) restore and maintain all aspects of the Bank to a safe and sound condition, and (b) comply with the requirements of this Order.

10. Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the OSBC acceptable written loan policies and procedures. The policies and procedures shall address, consider, and include, but not be limited to, the following:

(a) A requirement that all loans, including loan renewals, be supported by current and complete financial data, a clearly defined purpose, and, where applicable, complete collateral documentation;

(b) a complete description of required loan documentation and collateral for each specific type of loan, and a requirement for the maintenance of such documentation in the loan files;

(c) guidelines for (i) performing a credit and cash flow analysis on each loan, prior to funding and renewals, to determine the borrower's financial capacity, and (ii) documenting the analysis in the loan files;

(d) a description of the specific types and volume of loans that may be made by the Bank, including out-of-territory loans, and an appropriate portfolio mix of loan types;

(e) guidelines for renewing, extending, or modifying the terms of existing loans and maintaining documentation of the bases for each renewal, extension, or modification;

(f) procedures for exceptions to the Bank's loan policies, including required documentation by the account officer and approval by the board of directors that the exception to the policies is in the best interest of the Bank;

(g) the specific lending authorities assigned to each of the Bank's lending officers and

(h) the specific authority and procedures for advancing funds on extensions of credit.

11. (a) Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the OSBC acceptable written loan review procedures to identify and categorize problem credits and to assess the overall quality of the Bank's loan portfolio.

(b) The procedures to identify and categorize problem credits shall, at a minimum, address, consider, and include the following:

- (i) A description of the risk grades to be assigned to each loan;
 - (ii) the designation of the individuals who will be responsible for determining loan grades;
 - (iii) a description of which loans will be graded;
 - (iv) a description of the frequency with which loans will be graded; and
 - (v) the requirements outlined in Attachment I of the Interagency Policy Statement on the Allowance for Loan and Lease Losses, issued December 22, 1993 (the "ALL Policy Statement"), relating to "Loan Review Systems" and "Credit Grading Systems".
- (c) The procedures to assess the overall quality of the Bank's portfolio shall, at a minimum, address, consider, and include the following:
- (i) Independent risk grading of all loans reviewed and evaluation of the adequacy of any specifically allocated portion of the Bank's allowance for loan and lease losses;
 - (ii) establishment of a watch list that includes a description of each adversely graded credit, the outstanding dollar amount, internal grade, and summaries of weaknesses and current corrective actions; and

(iii) monthly review by the Bank's board of directors of the composition of the loan portfolio by loan grade and the watch list.

12. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the OSBC an acceptable written plan to reduce existing concentrations of credit in the Bank's loan portfolio and to monitor and control future extensions of credit to the borrowers and industries and in the regions cited and discussed in the Reports of Examination as concentrations. The plan shall include, at a minimum, the following:

(a) The methods used to identify concentrations of direct and indirect credits to a specific borrower, category of borrowers, specific industry or line of business that entail a common risk element and represent 25 percent or more of the Bank's tier 1 capital;

(b) specific procedures to reduce existing concentrations of credit and to provide a greater degree of diversification within the Bank's loan portfolio in order to avoid undue risks;

(c) specific procedures to protect the Bank's interests, limit or avoid concentrations of credit, and ensure that the Bank complies fully with lending limits set forth in section 9-1104 of the Kansas Statutes (the "State Legal Lending Limit") including, without limitation, monitoring the use of loan proceeds and reviewing documentation supporting extensions of credit; and

(d) the submission of monthly written reports to, and review by, the Bank's board of directors.

13. (a) The Bank shall charge off assets or portions of assets classified "Loss" within 10 days of identification by the management or board of directors of the Bank or by the Reserve Bank or the OSBC.

(b) Within 30 days of this Order, the Bank shall establish, and shall thereafter continue to maintain, through charges to current operating income, an adequate valuation reserve for loan losses. The adequacy of the reserve shall be determined in light of the volume of weighted classified loans, the current level of nonperforming loans, past loss experience, evaluation of the potential for loan losses in the Bank's portfolio, current economic conditions and examiners' other criticisms contained in the Bank's most recent report of examination, the requirements of the ALL Policy Statement, and of SFAS 114. A written record shall be maintained indicating the methodology used in determining the amount of a reserve needed. This record shall be submitted to the Reserve Bank and the OSBC for review within 30 days of this Order. Thereafter, the Bank shall conduct, at a minimum, a quarterly assessment of its loan loss reserve and its nonperforming loans and shall submit documentation of each quarterly assessment to the Reserve Bank and the OSBC within 30 days of the end of each quarter.

(c) By September 30, 1999, the Bank shall eliminate from its books, by charge off or collection, all assets or portions of assets receivable that have not been previously collected

in full or charged off and which were classified "Doubtful" in the May 17, 1999 Report of Examination.

14. (a) Within 45 days of this Order, the Bank shall take all necessary steps to correct all loan documentation and credit information deficiencies in the loan portfolio, especially those cited or discussed in the Reports of Examination. During the term of this Order, the Bank shall take all steps necessary to maintain current and complete documentation on all loans, consistent with its approved loan policy.

(b) Within 30 days of this Order, the Bank shall submit to the Reserve Bank and the OSBC an acceptable written plan designed to improve the Bank's position on each loan, or combination of related loans, in excess of \$1,000,000 that was past due as to principal or interest in excess of 90 days or on nonaccrual as of the date of this Order, and on each asset, or combination of assets, in excess of \$1,000,000, including other real estate, that was adversely classified or listed for special mention by Reserve Bank and OSBC examiners in the Reports of Examination through amortization, repayment, liquidation, additional collateral or other means, whichever may be appropriate. This plan shall not be amended or rescinded without the prior written approval of the Reserve Bank and the OSBC, except that the plan shall be amended periodically to cover loans or other assets in excess of \$1,000,000 that are adversely classified or listed for special mention at any subsequent examination or visitation of the Bank, or that are past due as to principal or interest for more than 90 days or on nonaccrual as of the date of each subsequent examination or visitation. Amended plans based on loans or other assets that are classified or listed for special mention or overdue in subsequent examinations or visitations shall

be submitted to the Reserve Bank and the OSBC with the next progress report, as required by paragraph 20 hereof, following each subsequent examination or visitation.

15. Within 30 days of this Order, the Bank shall submit to the Reserve Bank and the OSBC an acceptable written plan to provide for the maintenance of an adequate liquidity position. The plan shall, at a minimum, address and consider the following:

(a) The maintenance of sufficient liquidity to meet contractual liability maturities and to meet additional, unanticipated demands;

(b) the Bank's level of dependence on volatile liabilities, including out-of-territory deposits and funds obtained through rate posting services;

(c) steps to increase the volume of liquid assets and to diversify sources of funding to reduce the Bank's dependence on any single funding source; and

(d) the preparation and submission of regular, periodic written reports to the board of directors that document the Bank's progress in achieving compliance with the plan and that shall include, at a minimum: (i) a complete review of the Bank's then-current position in meeting targeted liquidity ratios; (ii) a schedule of anticipated sources and uses of funds over future plan horizons; and (iii) a discussion of contingency plans if actual sources or uses of funds vary materially from projections.

16. (a) The Bank shall not accept any brokered deposits except in compliance with the provisions of section 29 of the FDI Act (12 U.S.C. 1831f). The Bank shall notify the Reserve Bank and the OSBC, in writing, if the Bank requests any waiver of the restrictions imposed by section 29 from the Federal Deposit Insurance Corporation (the "FDIC") and shall notify the Reserve Bank and the OSBC of the FDIC's disposition of any request for such a waiver.

(b) Notwithstanding the provisions of paragraph 16 (a) hereof, the Bank shall notify the Reserve Bank and the OSBC in writing at least 5 days prior to its intent to take any action to accept or solicit any brokered deposits and, shall, along with the notification, provide the Reserve Bank and the OSBC with a written statement regarding its proposed sources and uses of brokered funds.

17. (a) Within 20 days of this Order, Bancshares shall retain a firm of independent public accountants, acceptable to the Reserve Bank and the OSBC, to conduct a full-scope audit of the organization's consolidated financial statements as of June 30, 1999, such audit to be conducted in accordance with generally accepted auditing standards. Bancshares' requirement for a full-scope audit shall continue at successive calendar year-ends until written release of this provision is received from the Reserve Bank and the OSBC. The scope of the accounting firm's engagement shall be set forth in an engagement letter that is acceptable to the Reserve Bank and the OSBC.

(b) Within 10 days of receipt of the audited statements, Bancshares shall provide the Reserve Bank and the OSBC a copy of the audit report and any management letter resulting

from the audit. Within 45 days of the receipt of the audit report and any management letter, Bancshares shall provide the Reserve Bank and the OSBC its written plan, including acceptable time frames to correct any deficiencies noted in the audit report or management letter.

18. (a) The Bank shall immediately take all necessary steps consistent with sound banking practices, to eliminate or correct all violations of sections 225.63(a), 225.64(a), and 225.63(b)(1) of Regulation Y of the Board of Governors (12 C.F.R. 225.63 (a), 225.64(a) and 225.63(b)(1)) and section 208.51(b)(2)(iv) of Regulation H of the Board of Governors (12 C.F.R. 208.51 (b)(2)(iv)) set forth in the Reports of Examination.

(b) The Bank shall not engage, directly or indirectly, in any violation of Regulation Y of the Board of Governors and Regulation H of the Board of Governors and shall not violate the State Legal Lending Limit.

(c) For the purposes of paragraph 18(b) of this Order, the term "violate" includes, but is not limited to, the funding of any existing loan commitments or portion thereof that are in violation of the State Legal Lending Limit.

(d) Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the OSBC an acceptable written compliance program designed to ensure compliance with all applicable laws, rules, and regulations, including appointment of an individual as a compliance officer responsible for coordinating and monitoring compliance with the program at the Bank.

The program shall detail, at a minimum, steps management will take to provide training to the responsible parties and provide adequate oversight over the entire process.

19. The plans, programs, policies, procedures, and engagement letter required by paragraphs 4, 5, 10, 11, 12, 14(b), 15, 17(a), and 18(d) hereof shall be submitted to the Reserve Bank and the OSBC for review and approval. Acceptable plans, programs, policies, procedures, and an acceptable engagement letter shall be submitted to the Reserve Bank and the OSBC within the required time periods. Where applicable, Bancshares and the Bank shall adopt all approved plans, programs, policies, and procedures and the approved engagement letter within 10 days of approval by the Reserve Bank and the OSBC and then shall fully comply with them. During the term of this Order, Bancshares and the Bank shall not amend or rescind the approved plans, programs, policies, procedures and engagement letter without the prior written approval of the Reserve Bank and the OSBC.

20. Within 30 days after the end of each calendar quarter (September 30, December 31, March 31 and June 30) following the date of this Order, Bancshares and the Bank shall furnish to the Reserve Bank and the OSBC written progress reports detailing the form and manner of all actions taken to secure compliance with this Order and the results thereof, including documentation of the quarterly assessment of the loan loss reserve, as required by paragraph 13 (b) hereof. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Reserve Bank and the OSBC have, in writing, released Bancshares and the Bank from making further reports.

21. All communications regarding this Order shall be sent to:

- (a) Mr. James H. Jonson
Vice President
Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198
- (b) Ms. Judi M. Stork
Acting Bank Commissioner
Office of the State Bank Commissioner
700 Jackson, Suite 300
Topeka, Kansas 66603
- (c) Mr. Patrick J. Regan, Jr.
Chairman of the Board
American National Bancshares of Wichita, Inc.
American Bank
7701 East Kellogg
Wichita, Kansas 67207

22. The provisions of this Order shall be binding upon Bancshares, the Bank, and each of their institution-affiliated parties, in their capacities as such, and their successors and assigns.

23. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated or suspended by the Board of Governors and the OSBC.

24. Notwithstanding any provision of this Order to the contrary, the Reserve Bank and the OSBC may, in their sole discretion, grant written extensions of time to Bancshares or the Bank to comply with any provision of this Order.

25. The provisions of this Order shall not bar, estop or otherwise prevent any federal or state agency or department from taking any other action affecting Bancshares, the Bank or any of their current or former institution-affiliated parties and their successors or assigns.

By order of the Board of Governors of the Federal Reserve System and the Office of the State Bank Commissioner effective this 16th day of August, 1999.

OFFICE OF THE STATE
BANK COMMISSIONER

By: 

Judi M. Stork

Acting Bank Commissioner

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: 

Jennifer J. Johnson

Secretary of the Board

American National Bancshares, Inc.
of Wichita

By: 

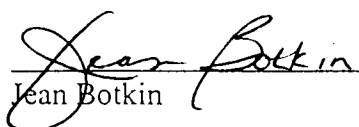
Patrick J. Regan, Jr.
Chairman

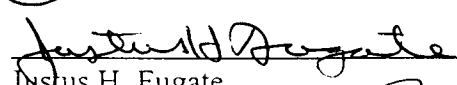
American Bank

By: 

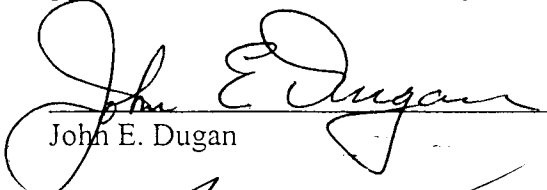
Patrick J. Regan, Jr.
Chairman

The undersigned directors of American National Bancshares of Wichita, Inc. each acknowledges having read the foregoing Order and approves of the consent thereto by American National Bancshares of Wichita, Inc.

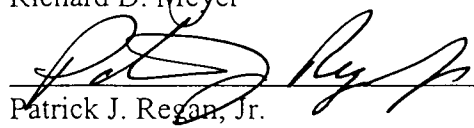

Jean Botkin


Justus H. Fugate

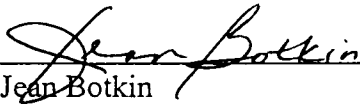

Robert M. Quinn

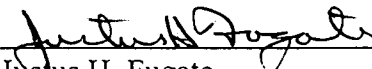

John E. Dugan

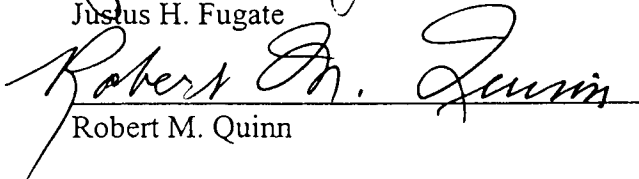

Richard D. Meyer

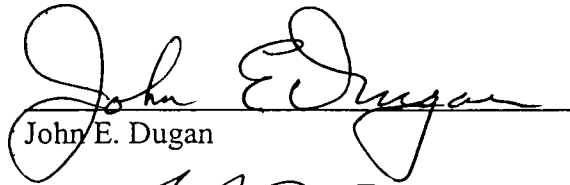

Patrick J. Regan, Jr.


The undersigned directors of American Bank each acknowledges having read the foregoing Order and approves of the consent thereto by American Bank.

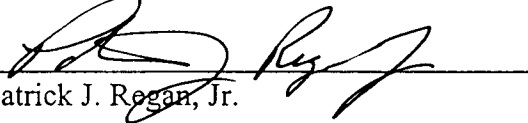

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Richard D. Meyer


Patrick J. Regan, Jr.